

Labor organization; union and employer stewardship trust. A trust, established pursuant to a collective bargaining agreement, that is funded and administered by the employers in an industry to compensate a multi-employer steward who is under the union's direct control with responsibility to settle disputes, investigate complaints, and otherwise encourage compliance with the agreement throughout the whole industry, is a trust qualifying for exemption as a labor organization.

'Advice has been requested whether the trust described below qualifies for exemption from Federal income tax under section 501(c)(5) of the Internal Revenue Code of 1954.

'The trust was organized pursuant to the terms of a collective bargaining agreement. The trust is intended to foster, promote, and maintain the conditions and provisions contained in the collective bargaining agreement between the various employers (represented by an association) and employees (represented by a union) involved through the use of a single stewardship system encompassing several firms in a particular industry. The trust instrument declares that the purpose of the trust includes the advancement and growth of the industry and the promotion and maintenance of high production and wage standards with optimum quality of product and craftsmanship. The trust accomplishes its purposes by maintaining a fund for hiring and compensating a full-time, multi-company steward who is responsible for investigating complaints filed by employees, assisting in the settlement of disputes, and assuring that the employer is complying with the terms of the collective bargaining agreement.

The trust is funded through contributions by the employers who are parties to the collective bargaining agreement, and it is administered by three trustees appointed by representatives of the employers. These trustees have full authority to manage and operate the trust, except for selection of the steward. The steward is recommended by the union, subject to the approval of the employers, and operates under union rules. Under the working conditions as promulgated, the steward receives daily work assignments from the business manager of the union but accounts for his work time to both the trustees and the union business manager. However, his reports to the business manager are on a daily basis, while his reports to the trustees are on a more infrequent basis. Should the steward fail to perform his responsibilities satisfactorily, either the employers or the union may request his discharge. If the parties do not unanimously agree to the discharge of the steward, the matter will be settled by an independent arbitrator in accordance with the collective bargaining agreement.

'Section 501(c)(5) of the Code provides for the exemption from Federal income tax of labor, agricultural, or horticultural organizations.

'Section 1.501(c)(5)-1 of the Income Tax Regulations provides that organizations contemplated by section 501(c)(5) of the Code as entitled to recognition of exemption as labor organizations are those which have no net earnings inuring to the benefit of any member, and have as their objects the betterment of the conditions of those engaged in such pursuits, the improvement of their products, and the development of a higher degree of efficiency in their respective occupations.

'Rev. Rul. 59-6, 1959-1 C.B. 121, describes a committee formed pursuant to a collective bargaining agreement to improve working conditions for apprentices in various skilled crafts and to aid in the settlement of disputes between employers and apprentices. The Revenue Ruling holds that the committee qualifies under section 501(c)(5) of the Code as a labor organization, even though committee membership consists of an equal number of employer and employee representatives and the committee is financed primarily by employer and union contributions. To the same effect is Rev. Rul. 75-473, 1975-2 C.B. 213, which also holds that a labor organization's exemption is not precluded by the fact that its membership and funding is drawn from both employer and union organizations.

'Unlike the apprenticeship committee considered in Rev. Rul. 59-6, the subject trust is administered solely by representatives of employers and, pursuant to the terms of the collective bargaining agreement, financed solely by their contributions. Nevertheless, the trust comes within the scope of section 501(c)(5) of the Code and the regulations thereunder because the primary purpose and activities of the trust are labor-oriented, i.e., to foster, promote, and maintain the conditions and provisions contained in the collective bargaining agreements between the employers and the employees through the use of a multicompany steward. As stated in *Portland Co-operative Labor Temple Association*, 39 B.T.A. 450 (1939), acq., 1939-1 (Part I) C.B. 28, the term 'labor organization' includes groups which are ordinarily organized to protect and promote the interests of labor.

The industry steward is basically a representative of the employees; he is but a variation of what is commonly known as a 'shop steward,' 'job steward,' or 'union steward.' The industry steward's primary responsibility is to assure that the terms of the collective bargaining agreement are being complied with by the employers. The steward essentially fulfills this function by receiving, investigating, and handling grievances on behalf of employees. In contrast to the infrequent contact the steward has with the trustees of the fund, he is under the direct control of the union, receiving work assignments from, and making reports to, the business manager of the union on a daily basis.

Therefore, because the primary activity of the trust is to provide a multi-company stewardship system that operates essentially to represent the employees and to promote the betterment of working conditions for employees, the trust's objectives are those of a labor organization described in section 501(c)(5) of the Code and the regulations thereunder.

'Furthermore, no party receives any benefits from the trust that would disqualify the trust from receiving an exemption under section 501(c)(5) of the Code.

'Accordingly, the trust qualifies for exemption from Federal income tax under section 501(c)(5) of the Code as a labor organization.

'Even though an organization considers itself within the scope of this Revenue Ruling, it must file an application on Form 1024, Application for Recognition of Exemption, in order to be recognized by the Service as exempt under section 501(c)(5) of the Code. The application should be filed with the District Director of Internal Revenue for the key district indicated in the instructions to Form 1024. See section 1.501(a)-1 of the regulations.